



The Structure of Taxes and Government in Kentucky and the Implications for Economic Growth

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Introduction

- As we are all aware, the policies of governments can have a significant impact on the competitiveness of a region
 - Affects the ability to attract both business and skilled workers
- This in turn affects regional development and economic growth of a region

Introduction

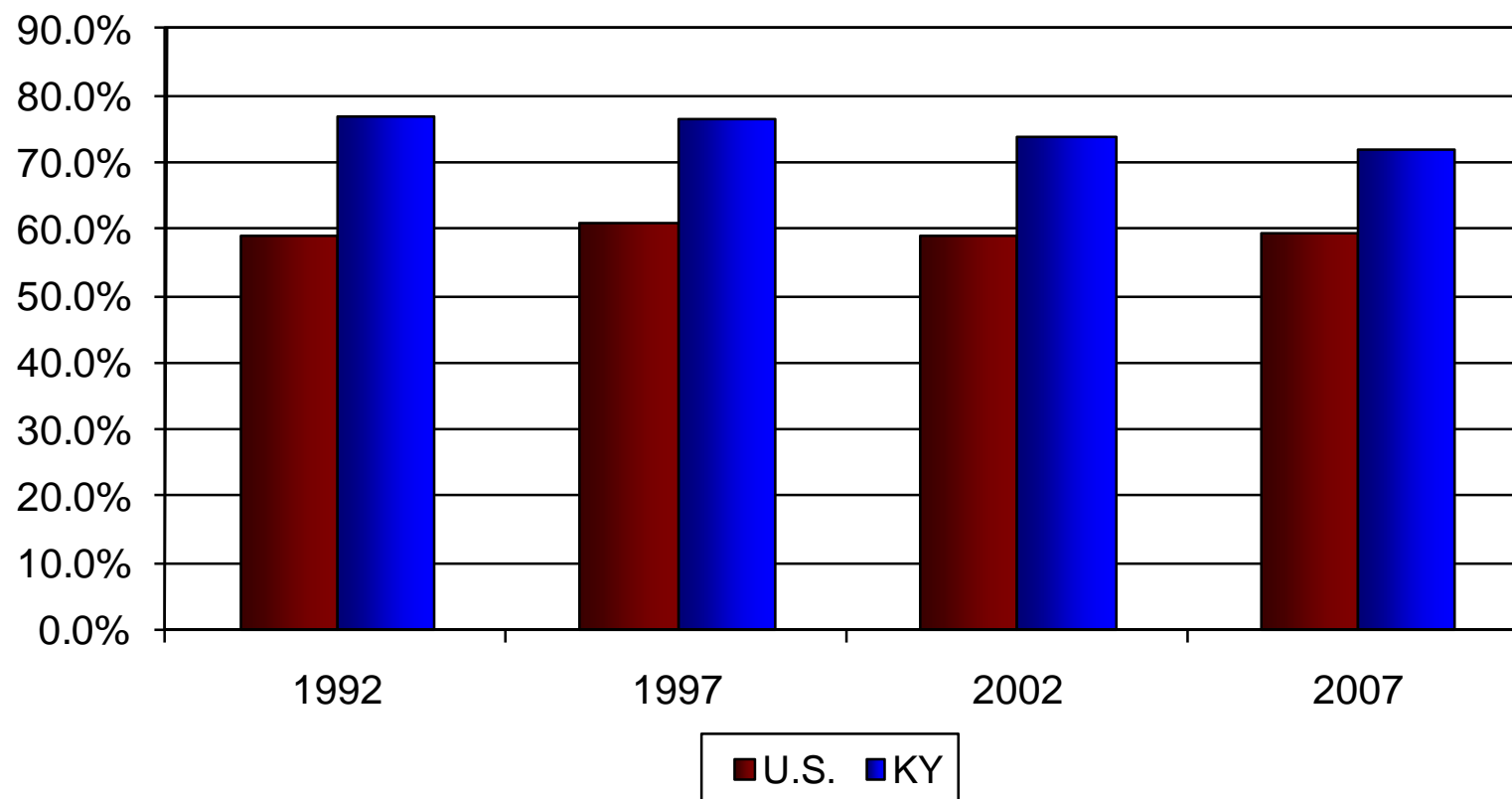
- In this presentation I want to talk about the effect of both state and local taxes as well as the share of state and local taxes on economic development in Kentucky
 - Both businesses and people care about the total tax burden, not who collects the taxes
- Start by talking about the structure of government in Kentucky



Structure of Government in Kentucky

- Government in Kentucky is much more centralized at the state level than is typical in the U.S.

Percent of State Taxes to Total State and Local Taxes



Source: U.S. Census Bureau, Census of Governments



Structure of Government in Kentucky

- Kentucky State government plays a much larger role in a number of areas than is typical
 - Education
 - Provision of social services such as public welfare, health care and hospitals
 - Maintenance of roads and highways
 - Parks
 - Tax policy

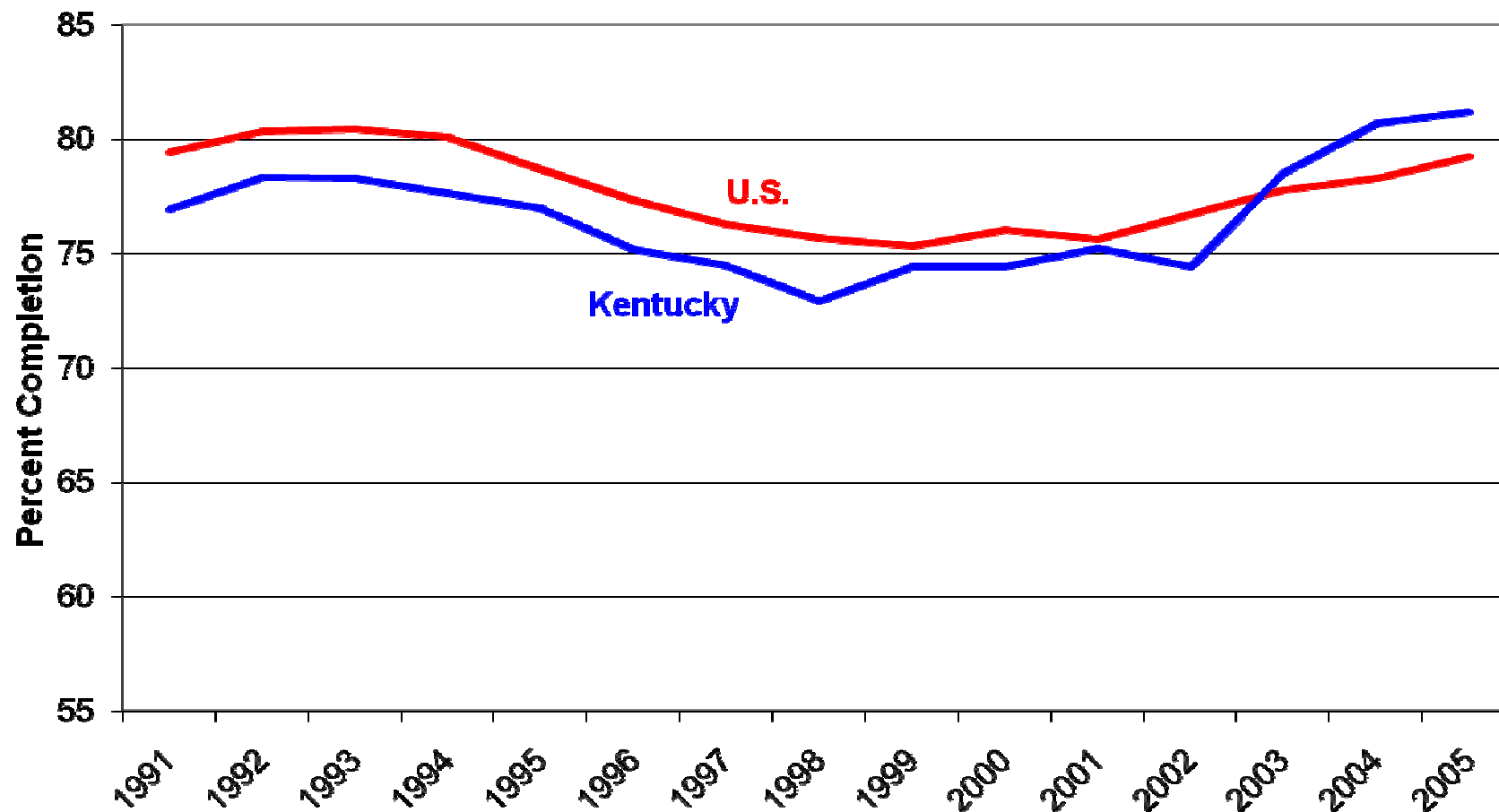


Structure of Government in Kentucky

- State governments produce policies that apply to the entire state
- However, these policies may not be well tailored to address specific problems in a region
- In a state as diverse as Kentucky, one-size-fits-all policies may be a particularly poor fit
- One example is education policy



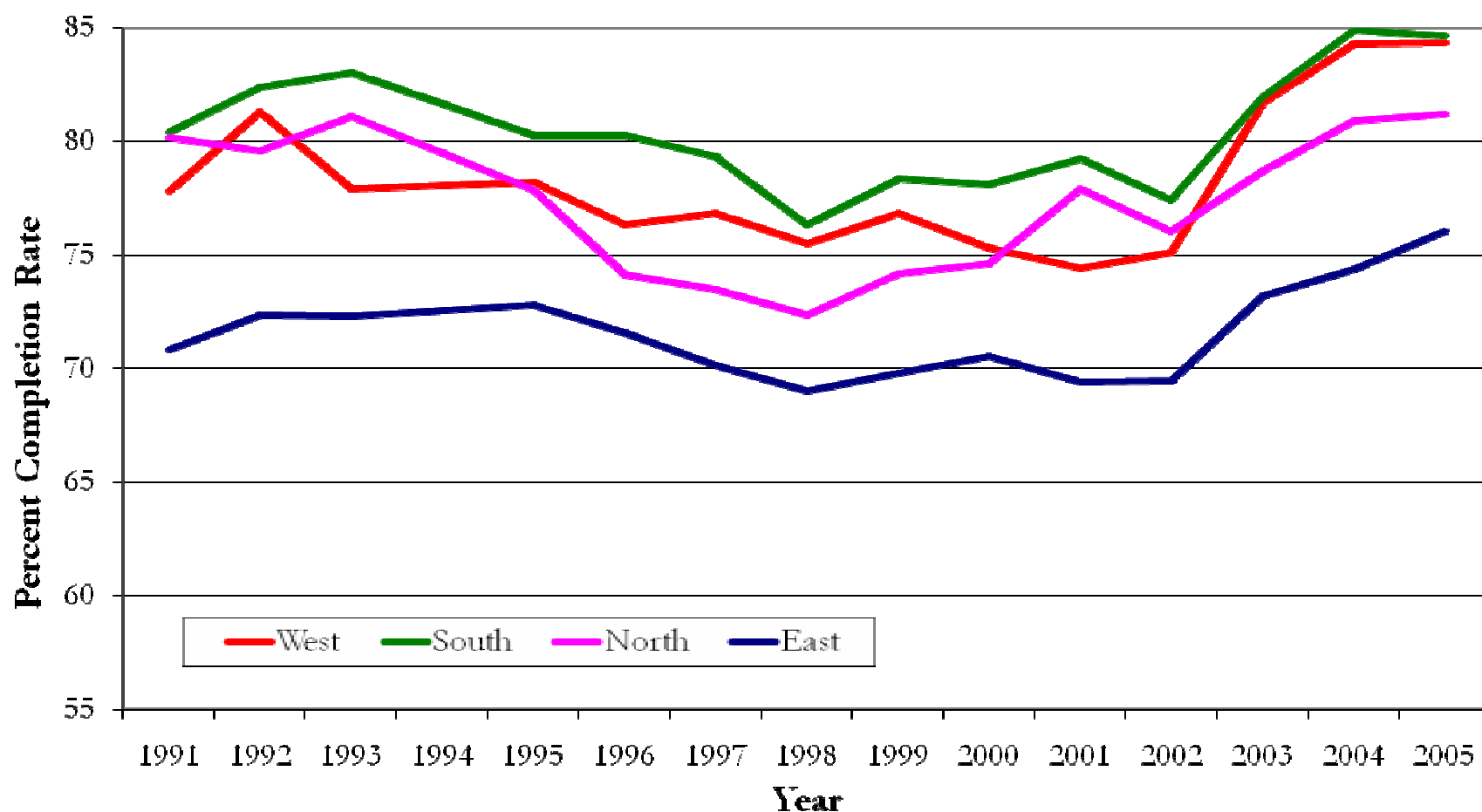
High School Completion Rates in the U.S. and Kentucky



Source: Common Core Data, U.S. Department of Education



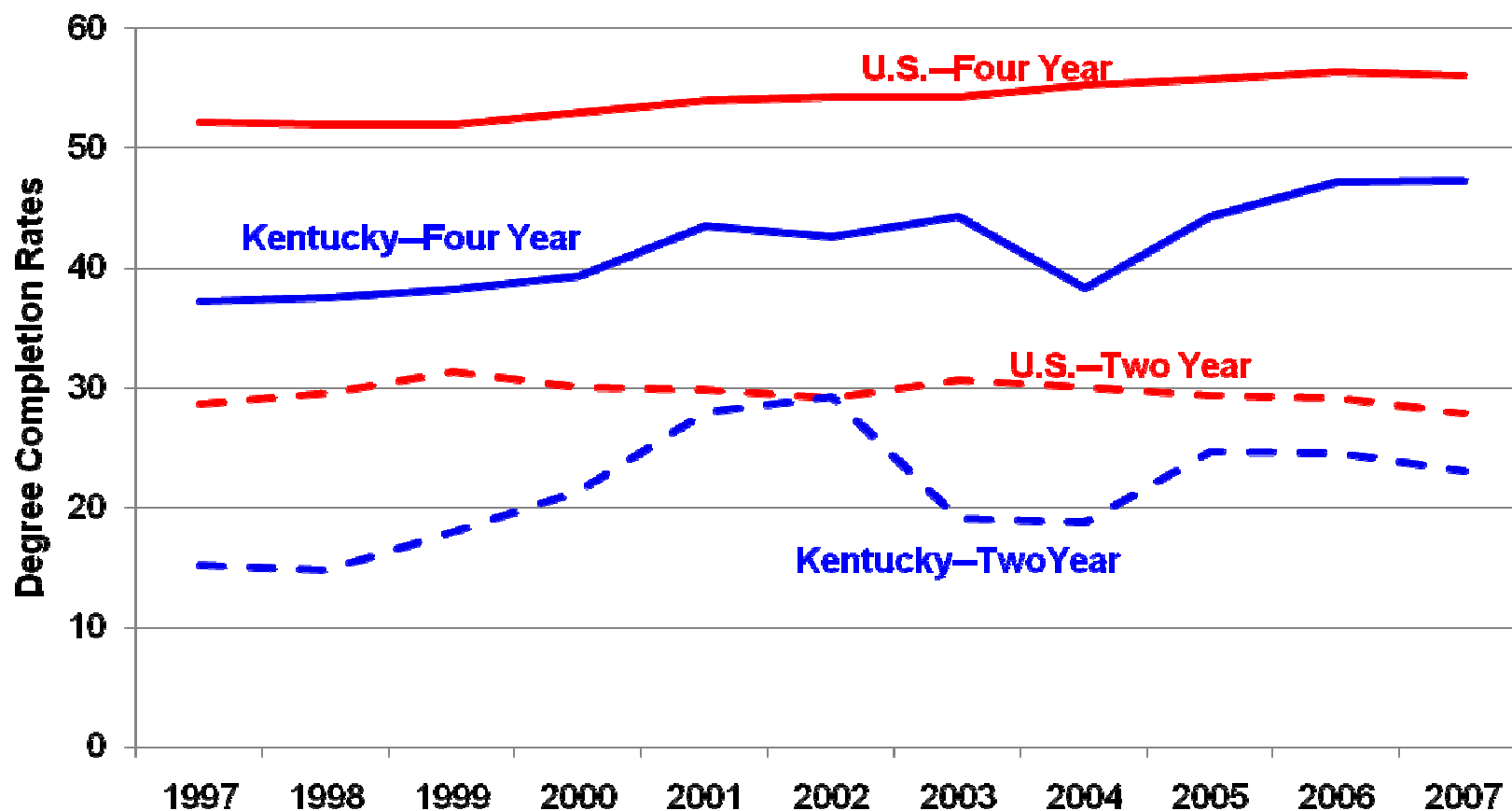
High School Completion Rates by Regions in Kentucky



Source: Common Core Data, U.S. Department of Education



Percent of Students Completing a College Degree



Source: Source: National Center for Higher Education Management System



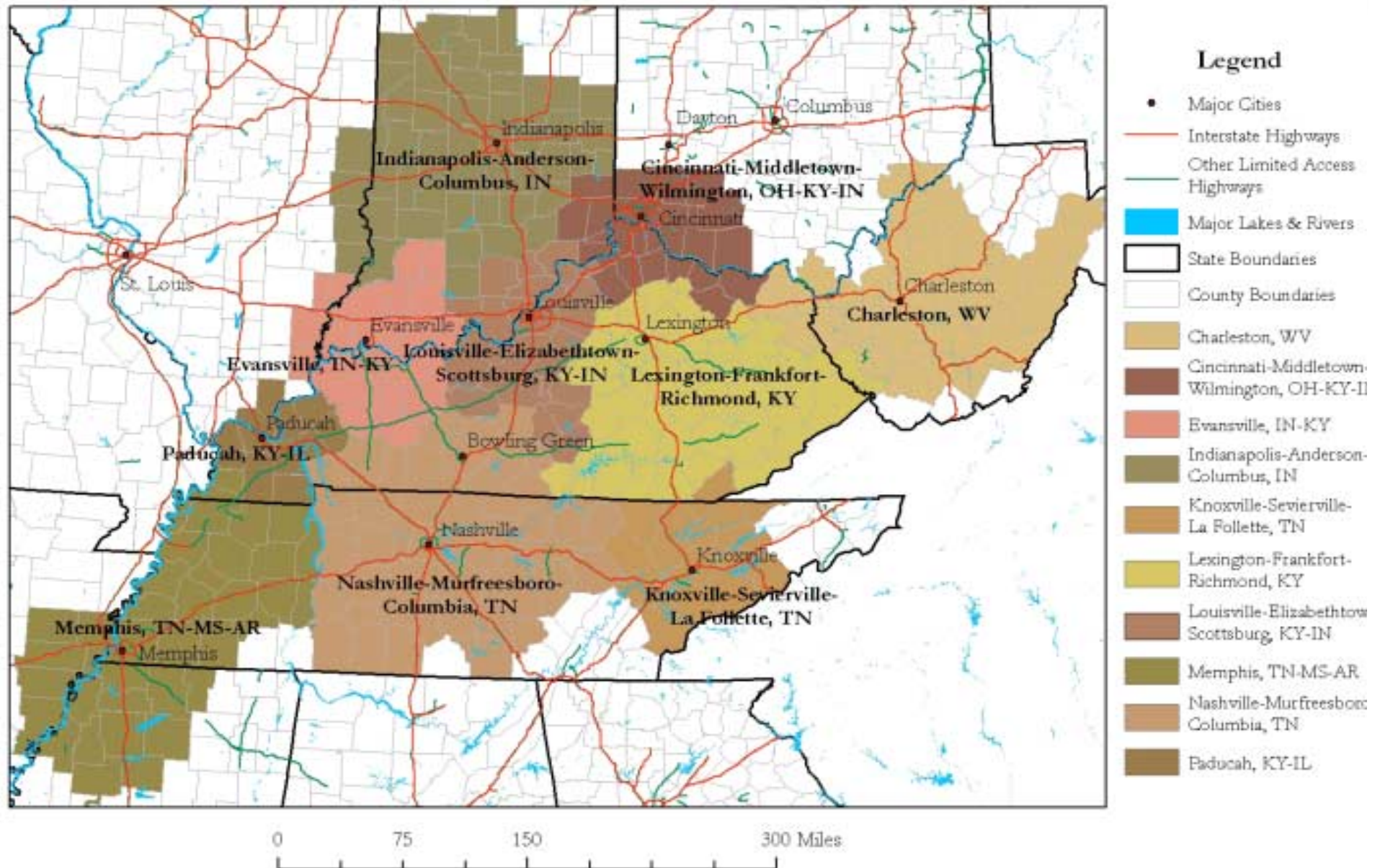
Structure of Government in Kentucky

- In the eastern part of the state low high school completion rates remain a problem
- In other parts of the state ensuring that students graduate with the skills necessary to complete college is a more serious issue
- Different problems across the regions require solutions that are specific to the region

Structure of Government in Kentucky

- Tax policy is another area where flexibility at the regional level could provide benefits
- Policy makers often view Kentucky as one large economy
- In fact Kentucky is a collection of a number of regional economies that are very different

Regional Economic Areas (as defined by the U.S. Bureau of Economic Analysis)





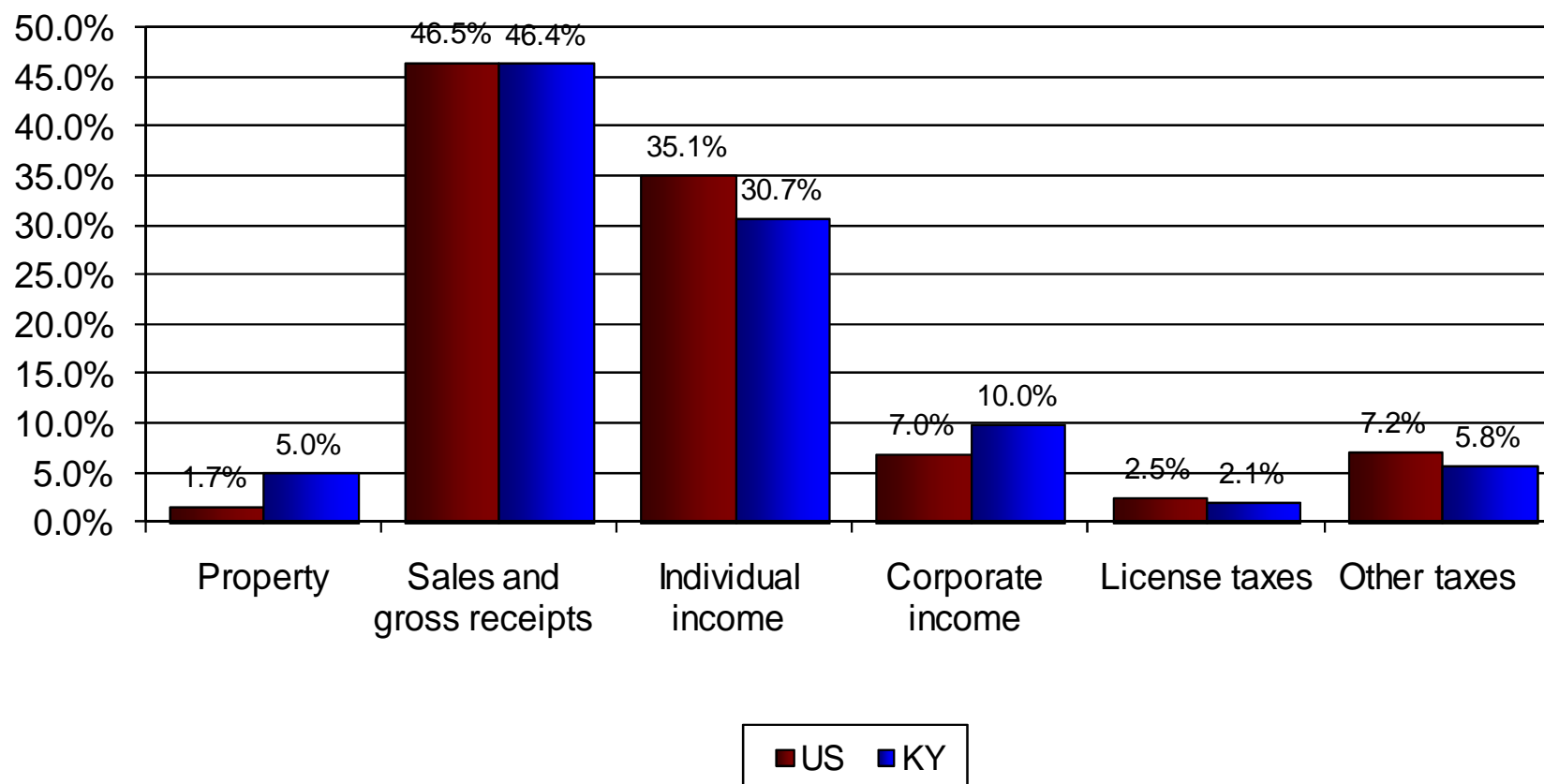
Structure of Government in Kentucky

- Not clear that Ashland should have the same tax structure as Paducah
- Flexibility would allow regions to design taxes that better fit the needs of the regional economy

Structure of Taxes in Kentucky

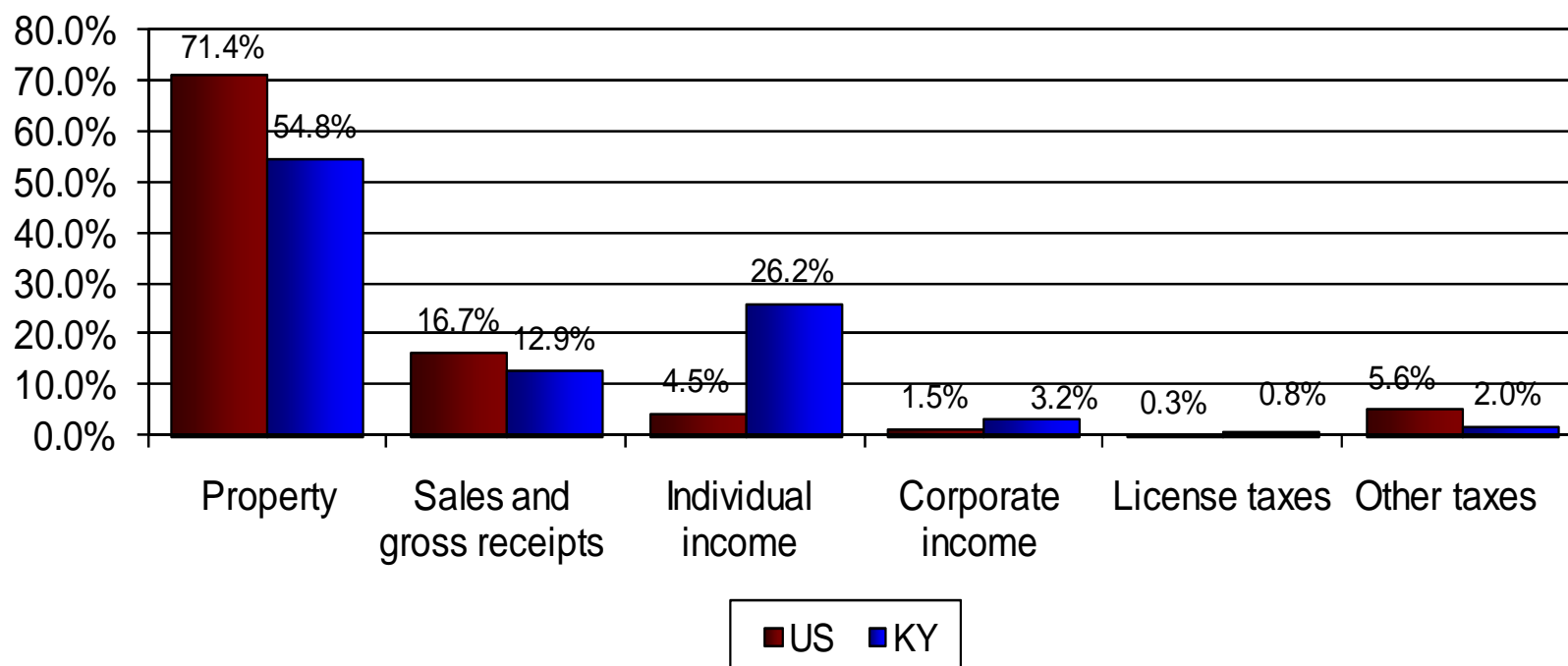
- Important to look at both state and local taxes when considering the impact of taxes of economic development
- Current limits on the taxes that local governments can levy means that the sources of tax revenue in Kentucky are much different that the typical state
- This in turn affects the types of workers and businesses willing to locate in Kentucky

Percent of State Taxes by Type of Tax, 2007



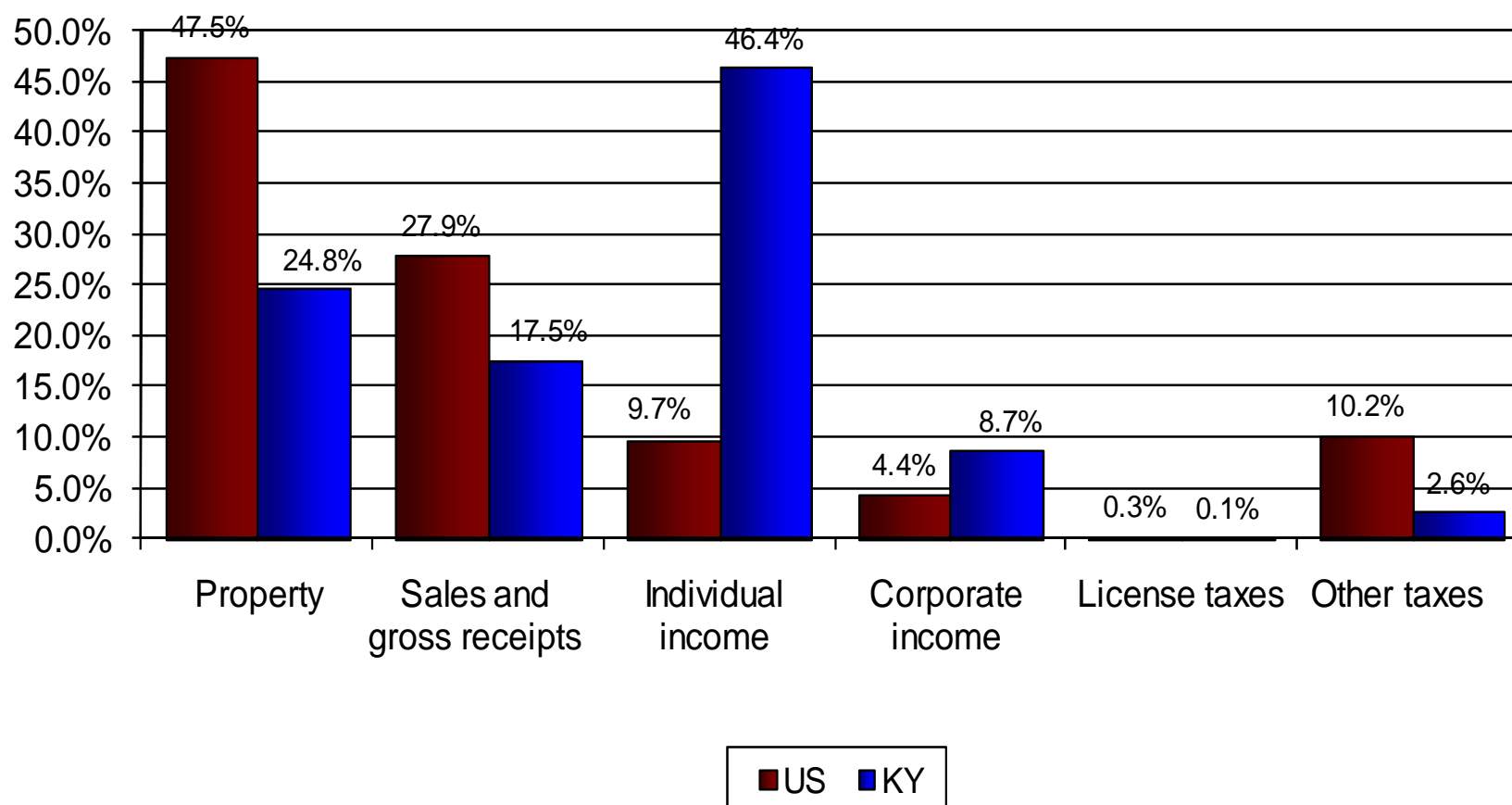
Source: U.S. Census Bureau, Census of Governments

Percent of All Local Government Taxes by Type of Tax, 2007



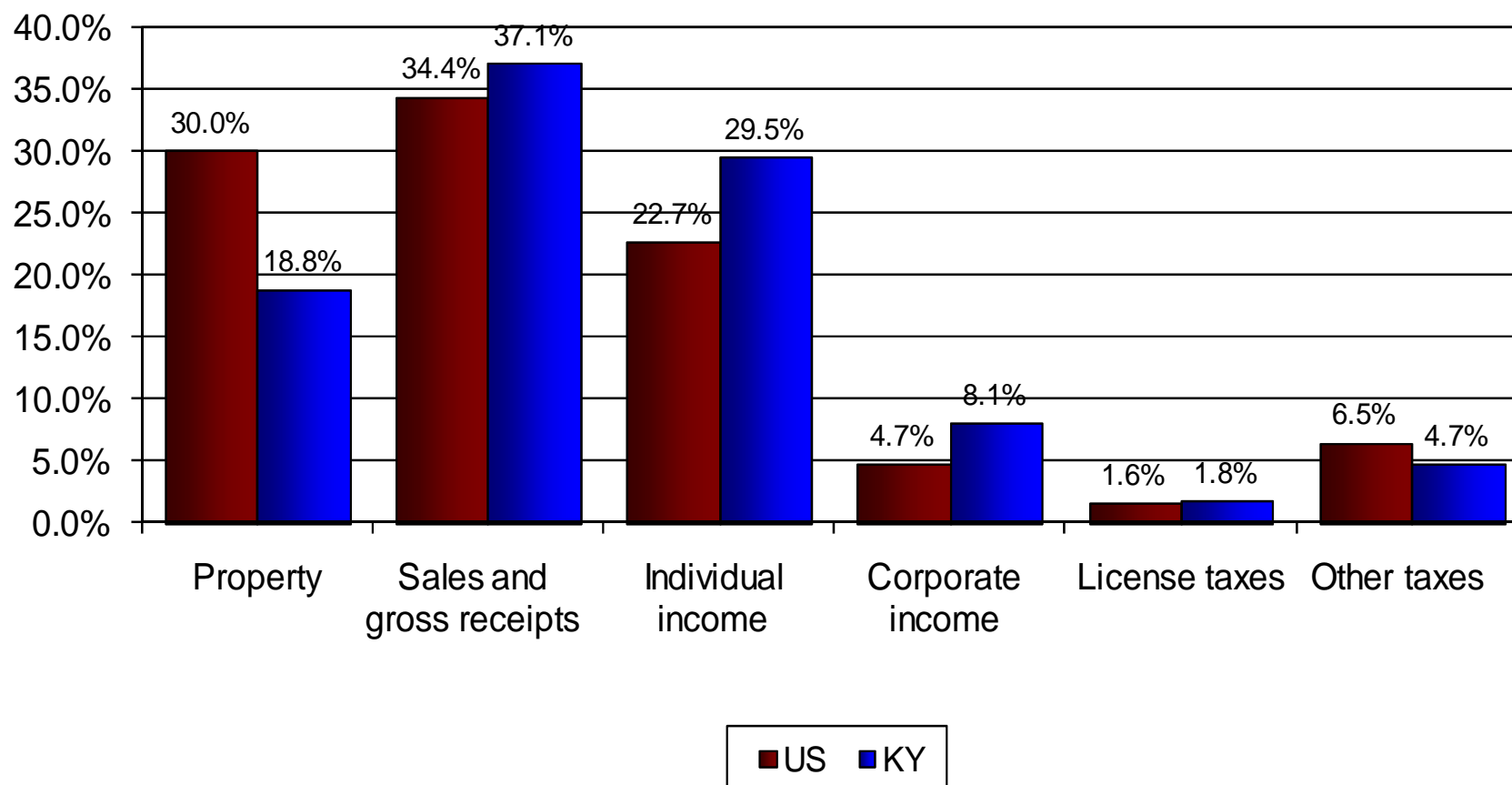
Source: U.S. Census Bureau, Census of Governments

Percent of Municipal Taxes by Type of Tax, 2007



Source: U.S. Census Bureau, Census of Governments

Percent of State & Local Taxes by Type of Tax, 2007



Source: U.S. Census Bureau, Census of Governments



Structure of Taxes in Kentucky

- Property taxes tend to produce the least variable revenue stream, so an increased reliance on sales and income taxes will lead to more revenue variation over the business cycle

Structure of Taxes in Kentucky

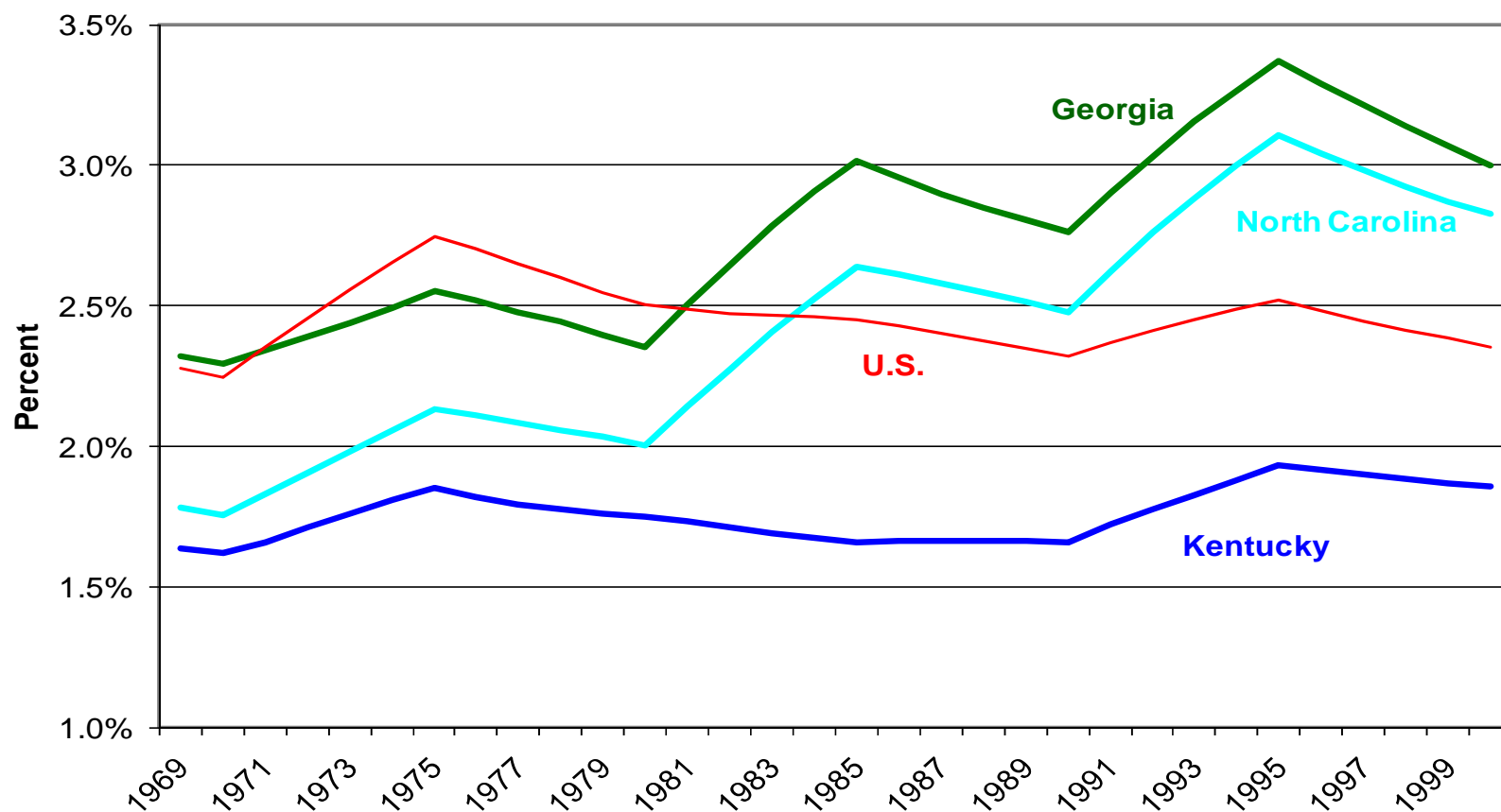
- Relative to other states the tax structure in Kentucky favors people who hold their wealth as property and hurts people whose main source of wealth is their human capital
- Older workers tend to have more property wealth
- Younger and more educated workers have more of their wealth in human capital



Structure of Taxes in Kentucky

- This means that the tax structure in Kentucky hurts Kentucky's efforts to attract hi-tech business and young, highly educated workers
- Can see this in data on immigration into the state as well as data on who chooses to live in Kentucky vs. the states on our border

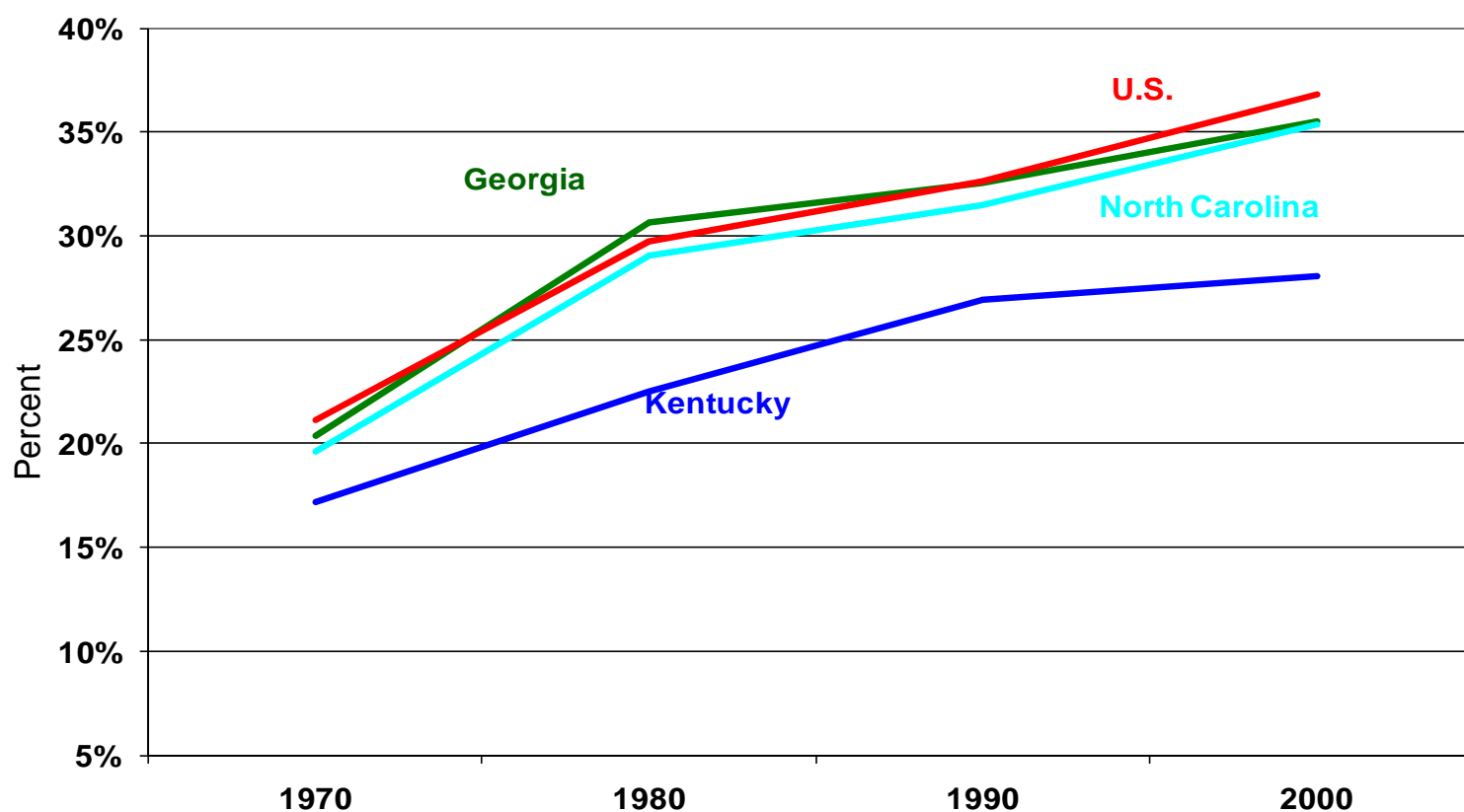
People Moving into the State as a Percent of Total State Population



Source: U.S. Census Bureau, Decennial Census

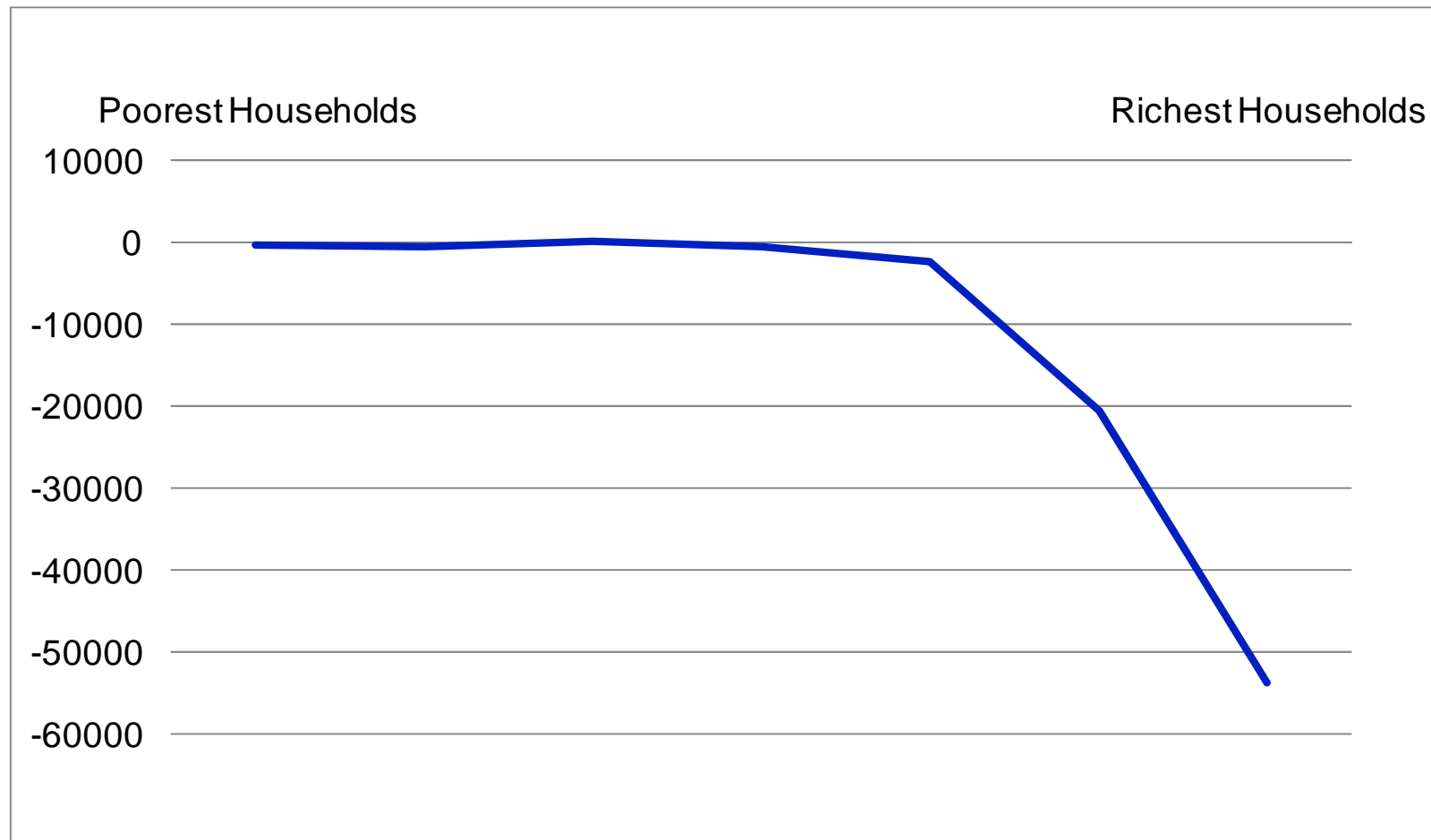


Percent of Adults Moving into a State with At Least a Four-Year College Degree



Source: U.S. Census Bureau, Decennial Census

Difference in Household Income Between Kentucky and Border States For Households Living near the Border



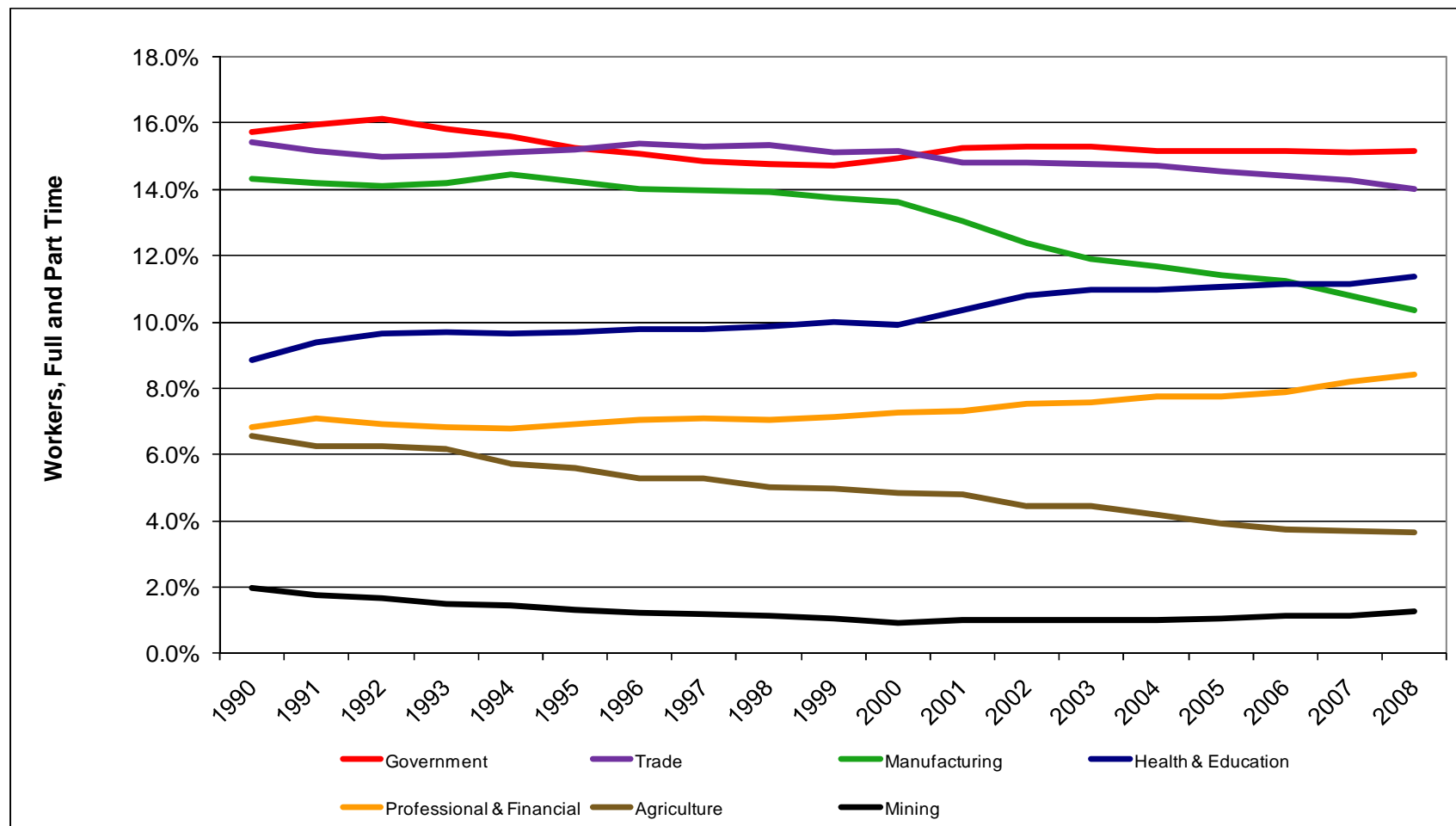
Source: Integrates Public Use Microdata Series: <http://usa.ipums.org/usa/>



Structure of Taxes in Kentucky

- Last slide shows that, when given a choice, high income households chose to live in our border states who tend to have lower income taxes
 - Particularly true along our border with Tennessee
- Current structure of taxes is not compatible with recent changes in the structure of the Kentucky economy

Percent of Employment by Sector in Kentucky



Source: U.S. Bureau of Economic Analysis, Regional Economic Information System

Structure of Taxes in Kentucky

- The sectors where employment is growing are sectors where workers hold much of their wealth in human capital and therefore are hurt by high income taxes

Summary

- Structure of government in a state as well as the structure of taxes will impact economic growth in a state
- When thinking about the impact of taxes on economic growth it is important to consider the entire tax burden—both state and local taxes—since this is what businesses and individuals base their decisions on

Summary

- State government in Kentucky is very centralized which leads to one-size-fits all policies
- Kentucky has a number of different regions with very different economies, so one-size-fits all policies may not be well suited for all regions

Summary

- Kentucky is heavily reliant on income and sales taxes and much less reliant of property taxes than the typical state
- Taxes in Kentucky tend to favor older workers who have much of their wealth in property and hurt younger, highly educated workers who have much of their wealth in human capital
 - Limits our ability to attract high-tech firms who employ younger, highly educated workers

Summary

- Important to think about the future of the State's economy when considering changes in the structure of taxes in Kentucky



THANK YOU